

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Market-Dominant
Price Adjustment

Docket No. R2015-4

CHAIRMAN'S INFORMATION REQUEST NO. 2

(Issued January 27, 2015)

To clarify the issues raised by the Postal Service's Notice of Market Dominant Price Adjustment in Docket No. R2015-4,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to individual questions as soon as they are developed, but no later than February 2, 2015.

First Class Mail

1. In its FY 2014 Annual Compliance Report (ACR), the Postal Service states that the discount for 5-Digit Automation Flats will be reduced to match the cost avoidance over time in future price change filings, while taking into consideration other business and operational needs. FY 2014 ACR at 14. In this proceeding, the Postal Service proposes to increase the discount for First-Class Mail 5-Digit Automation Flats from 18.3 cents to 19.2 cents. The proposed discount exceeds avoided costs. The Postal Service states the excessive passthrough is justified pursuant to 39 U.S.C. § 3622(e)(2)(B).
 - a. Please explain how 39 U.S.C. § 3622(e)(2)(B) can be used to justify increasing a passthrough that already exceeds avoided costs.

¹ United States Postal Service Notice of Market-Dominant Price Adjustment, January 15, 2015 (Notice).

- b. Please explain how increasing the 5-Digit Automation Flats discount is consistent with the Postal Service's statement in the FY 2014 ACR that it plans to reduce the discount over time.

Standard Mail

2. In Excel file "Attachment B.xlsx," tab "Standard Mail Prcls & Mkt Prcls," the Postal Service provides workshare discounts, avoided costs, and discounts for Standard Mail parcel categories. However, the discounts in this tab do not appear to have been calculated from the rates in Excel file "CAPCALC-STD-R2015-4.xlsx." Please provide a revised Attachment B Excel file with the correct discounts and passthrough calculations. Please also provide statutory exceptions for any revised passthroughs that exceed 100 percent as a result of the revised calculations.
3. The Postal Service discusses Standard Mail workshare discounts with passthroughs that exceed 100 percent. Notice at 45-51. For the following discounts, the Postal Service's discussions and statutory justifications compare the Docket No. R2015-4 passthroughs to the ones calculated using the Docket No. R2013-11 discounts (surcharge rates) and the FY 2014 avoided costs:
 - Automation AADC Letters
 - Nonmachinable 5-Digit Letters
 - Automation 3-Digit Flats (commercial)
 - Nonautomation 3-Digit Flats (commercial)
 - a. Please provide revised discussions and statutory justifications that compare the proposed Docket No. R2015-4 passthroughs to the passthroughs calculated using Docket No. R2013-10 discounts (non-surcharge rates) and FY 2014 avoided costs.
 - b. Please provide any applicable statutory justifications for any passthroughs that are higher under the proposed Docket No. R2015-4 discounts compared to the ones calculated using the R2013-10 discounts, *i.e.*,

increases in passthroughs that are already above 100 percent using the R2013-10 discounts.

4. The Postal Service proposes that the passthrough from Nonautomation AADC Nonmachinable letters increase from 112.5 percent to 125.0 percent. Notice at 46. It further states that “[l]owering the AADC passthrough would require even larger price increases to keep the downstream entry points (ADC, 3-Digit, and 5-Digit) in line with the AADC price.” *Id.* at 47.
 - a. Please explain why the Postal Service did not propose to retain the passthrough for Nonautomation AADC Nonmachinable letters at 112.5 percent. In the response, please discuss how lowering the price for this category avoids rate shock for other Standard Mail categories.
 - b. Please explain how increasing the passthrough for Nonautomation AADC Nonmachinable letters is consistent with 39 U.S.C. § 3622(e).
5. The Postal Service proposes that the Automation 3-Digit Flats passthrough increase to 131.0 percent. Notice at 48. It also states “[l]owering this passthrough to 100 percent would result in higher blended prices in the new FSS cells, which would reduce the incentive for Flats mailers to prepare their mail for FSS processing.” *Id.* Please provide a rationale for increasing the passthrough for Automation 3-Digit Flats (from 119.0 percent under the R2013-10 discounts to 131.0 percent under the proposed R2015-4 discount) and provide a statutory justification for the increased passthrough.
6. The Postal Service states that the R2013-10 discount for Automation 5-Digit Flats was 9.3 cents. Notice at 48.
 - a. Please confirm that the R2013-10 Automation 5-Digit Flats discount was 9.0 cents, not 9.3 cents. See Docket No. R2013-10, Response of the United States Postal Service to Order No. 1890, November 29, 2013, at 2. If not confirmed, please explain.

- b. Please confirm that the Postal Service is increasing the discount for commercial Automation 5-Digit Flats from 9.0 cents to 9.1 cents in the instant docket. If not confirmed, please explain.
 - c. Please provide a rationale for increasing the passthrough for commercial Automation 5-Digit Flats (from 105.9 percent under the R2013-10 discount to 107.1 percent under the proposed R2015-4 discount) and provide a statutory justification for the increased passthrough.
- 7. The Postal Service states “the nonprofit passthroughs for automation 5-Digit flats and nonautomation 3-Digit Flats are 119.1 percent and 183.7 percent, respectively.” Notice at 48. However, Excel file “Attachment B.xlsx,” tab “Standard Mail Flats,” shows a passthrough of 105.9 percent for nonprofit Automation 5-Digit Flats and a passthrough of 119.1 percent for nonprofit Nonautomation 3-Digit Flats.
 - a. Please confirm that the proposed passthrough for nonprofit Automation 5-Digit Flats is 105.9 percent and the proposed passthrough for nonprofit Nonautomation 3-Digit Flats is 119.1 percent. If not confirmed, please explain.
 - b. Please provide a rationale for increasing the passthrough for Nonautomation 3-Digit Flats (from 108.5 percent under the R2013-10 discounts to 119.1 percent under the proposed R2015-4 discount) and provide a statutory justification for the increased passthrough.
- 8. The Postal Service discusses Standard Mail Parcels workshare discounts that exceed avoided costs. Notice at 50. It does not provide statutory justifications for two of the discounts that exceed avoided costs: NDC Irregular Parcels and NDC Marketing Parcels. Please provide statutory justifications for these discounts.
- 9. Pursuant to the Commission’s directives in its FY 2010 Annual Compliance Determination at 107, please provide:

- a. An explanation of how the proposed prices for Standard Mail Flats will move the cost coverage for Standard Mail Flats towards 100 percent.
 - b. A statement estimating the effect that the proposed prices will have in reducing the subsidy of the Standard Mail Flats product.
 - c. All underlying workpapers and data used to respond to parts a and b.
10. In its FY 2014 ACR, the Postal Service reports that the revenues for only two Standard Mail products did not cover attributable costs in FY 2014: Standard Mail Flats and Standard Mail Parcels. FY 2014 ACR at 17-19. In this docket, the Postal Service proposes approximately a 2.5 percent increase for Standard Mail Flats and approximately a 9.8 percent increase for Standard Mail Parcels. Notice at 21. Please explain why Standard Mail Parcels users can sustain a 9.8 percent increase, while Standard Mail Flats users can only sustain a 2.5 percent increase.

Package Services

11. In USPS-LR-R2015-4/4, Excel file "R2015-4 Package Services Cap Calculations.xlsx," tab "MM & LM BDs," cell "G21," the Postal Service reports 131,781,834 postage pounds for Single-Piece Media Mail, Second through Seventh Pounds. In Docket No. ACR2014, library reference USPS-FY14-4, Excel file "FY 2014 Media Mail.xlsx," tab "Media BD_sp," cell "E21," the Postal Service reports 97,774,576 postage pounds for Single-Piece Media Mail, Second through Seventh Pounds. Please reconcile these differences and if necessary, file a revised Excel file "R2015-4 Package Services Cap Calculations.xlsx" with updated cap calculations.
12. In USPS-LR-R2015-4/4, Excel file "R2015-4 Package Services Cap Calculations.xlsx," tab "BDs for BPM Presort Parcels," cells "D24-D30; E24-E27; I24-I30; J24-J26," the Postal Service reports Basic and Carrier Route Presort Pieces for Non-Dropshipped and DBMC. In Docket No. ACR2014, library reference USPS-FY14-4, Excel file "FY 2014 BPM.xlsx," tab "Presort Parcels BD," cells "C16-C22; D16-D19; G16-G22; H16-H18," the Postal Service reports different values for

Basic and Carrier Route Presort Pieces for Non-Dropshipped and DBMC. Please reconcile the values in the two files and if necessary, file a revised Excel file "R2015-4 Package Services Cap Calculations.xlsx" with updated cap calculations.

By the Acting Chairman.

Robert G. Taub